

# **PASADENA AREA COMMUNITY COLLEGE DISTRICT**

Audit Report

## **HEALTH FEE ELIMINATION PROGRAM**

Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session  
and Chapter 1118, Statutes of 1987

*July 1, 2002, through June 30, 2004*



**STEVE WESTLY**  
California State Controller

June 2006



STEVE WESTLY  
California State Controller

June 30, 2006

John P. Korsler, Ed.D.  
Superintendent/President  
Pasadena Area Community College District  
1570 East Colorado Boulevard  
Pasadena, CA 91106

Dear Dr. Korsler:

The State Controller's Office audited the costs claimed by the Pasadena Area Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2004.

The district claimed \$388,001 for the mandated program. Our audit disclosed that \$195,246 is allowable and \$192,755 is unallowable. The unallowable costs occurred because the district claimed costs funded by federal moneys, claimed costs that did not meet eligibility requirements, and understated applicable offsetting revenue. The State will pay allowable costs claimed that exceed the amount paid, totaling \$195,246, contingent upon available appropriations.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original Signed By:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/vb:ams

cc: Odessa Walker  
Director, Fiscal Services  
Pasadena Area Community College District  
Marty Rubio, Specialist  
Fiscal Accountability Section  
California Community Colleges Chancellor's Office  
Jeannie Oropeza, Program Budget Manager  
Education Systems Unit  
Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the Pasadena Area Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2004. The last day of fieldwork was January 10, 2006.

The district claimed \$388,001 for the mandated program. Our audit disclosed that \$198,246 is allowable and \$192,755 is unallowable. The unallowable costs occurred because the district claimed costs funded by federal moneys, claimed costs that did not meet eligibility requirements, and understated applicable offsetting revenue. The State will pay allowable costs claimed that exceed the amount paid, totaling \$195,246, contingent upon available appropriations.

## Background

Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session (E.S.) repealed *Education Code* Section 72246, which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health service fee as specified.

Chapter 1118, Statutes of 1987, amended *Education Code* Section 72246 (subsequently renumbered as Section 76355 by Chapter 8, Statutes of 1993). The law requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session imposed a "new program" upon community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applied to all community college districts that levied a health service fee in FY 1983-84.

On April 27, 1989, the COSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, requiring them to maintain that level in FY 1987-88 and each fiscal year thereafter.

*Parameters and Guidelines* establishes the state mandate and defines reimbursement criteria. The COSM adopted *Parameters and Guidelines* on August 27, 1987, and amended it on May 25, 1989. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs to assist school districts in claiming reimbursable costs.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2002, through June 30, 2004.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by *Government Auditing Standards*. However, the district declined our request.

## **Conclusion**

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Pasadena Community College District claimed \$388,001 for costs of the Health Fee Elimination Program. Our audit disclosed that \$195,246 is allowable and \$192,755 is unallowable.

For FY 2002-03, the State made no payment to the district. Our audit disclosed that \$120,605 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$120,605, contingent upon available appropriations.

For FY 2003-04, the State made no payment to the district. Our audit disclosed that \$74,641 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$74,641, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft audit report on May 5, 2006. We contacted Odessa Walker, Director, Fiscal Services, by telephone on June 13, 2006. Ms. Walker agreed with the findings, and stated that the district declined to submit a written response.

**Restricted Use**

This report is solely for the information and use of the Pasadena Area Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original Signed By:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

# Schedule 1— Summary of Program Costs July 1, 2002, through June 30, 2004

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
Health services costs:				
Salaries and benefits	\$ 506,488	\$ 506,488	\$ —	
Services and supplies	62,071	51,965	(10,106)	Finding 2
Indirect costs	151,946	151,946	—	
Total health services costs	720,505	710,399	(10,106)	
Authorized health fees	(485,844)	(558,087)	(72,243)	Finding 4
Subtotals	234,661	152,312	(82,349)	
Offsetting savings/reimbursements	(31,707)	(31,707)	—	
Total	<u>\$ 202,954</u>	120,605	<u>\$ (82,349)</u>	
Amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 120,605</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Health services costs:				
Salaries and benefits	\$ 480,056	\$ 474,682	\$ (5,374)	Finding 1
Services and supplies	40,967	40,967	—	
Indirect costs	160,339	142,405	(17,934)	Findings 1, 3
Total health services costs	681,362	658,054	(23,308)	
Authorized health fees	(496,315)	(583,413)	(87,098)	Finding 4
Total	<u>\$ 185,047</u>	74,641	<u>\$ (110,406)</u>	
Amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 74,641</u>		
<u>Summary: July 1, 2002, through June 30, 2004</u>				
Health services costs:				
Salaries and benefits	\$ 986,544	\$ 981,170	\$ (5,374)	Finding 1
Services and supplies	103,038	92,932	(10,106)	Finding 2
Indirect costs	312,285	294,351	(17,934)	Findings 1, 3
Total health services costs	1,401,867	1,368,453	(33,414)	
Authorized health fees	(982,159)	(1,141,500)	(159,341)	Finding 4
Subtotal	419,708	226,953	(192,755)	
Offsetting savings/reimbursements	(31,707)	(31,707)	—	
Total	<u>\$ 388,001</u>	195,246	<u>\$ (192,755)</u>	
Amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 195,246</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

**FINDING 1—  
Unallowable salaries  
and benefits, and  
related indirect costs**

The district claimed unallowable salary and benefit costs totaling \$5,374. The related indirect cost is \$1,795.

The unallowable costs relate to student workers' salaries and benefits funded by the federal work-study program.

*Parameters and Guidelines* specifies that community college districts shall be reimbursed only for costs of health services programs that are traceable to supporting documentation showing evidence of the validity of such costs.

**Recommendation**

We recommend that the district ensure that it claims only costs for health services reimbursable under the mandate program.

**District's Response**

The district agreed with the finding.

**FINDING 2—  
Unallowable athletic  
insurance costs**

For fiscal year (FY) 2002-03, the district claimed unallowable athletic insurance costs totaling \$10,106. The error occurred because the district's staff believed these costs were eligible for reimbursement.

*Parameters and Guidelines* states that community college districts will be reimbursed for the costs of providing a health service program. *Education Code* Section 76355(d) (formerly Section 72246(2)) states that authorized expenditures for health services shall not include the cost of athletic insurance.

**Recommendation**

We recommend that the district ensure that all claimed costs are allowable and supported.

**District's Response**

The district agreed with the finding.



**FINDING 3—  
Overstated indirect  
costs**

For FY 2003-04, the district overstated indirect costs by \$16,139.

The district claimed indirect costs based on a federally approved rate of 33.4%; however, the correct federally approved rate for FY 2003-04 was 30%. The 33.4% indirect cost rate was approved for use during the period of July 1, 2004, through June 30, 2006, which is subsequent to the audit period. We applied the difference of 3.4% to the allowable salaries and benefits for FY 2003-04 to compute the adjustment.

A summary of the adjustment is as follows.

	Fiscal Year 2002-03
Allowable salaries and benefits	\$ 474,682
Indirect cost rate variance	× 3.4%
Audit adjustment	<u>\$ 16,139</u>

*Parameters and Guidelines* states that indirect costs may be claimed in the manner described in the SCO claiming instructions. The claiming instructions require that districts obtain federal approval of indirect cost rate proposals prepared according to Office of Management and Budget (OMB) Circular A-21.

Recommendation

We recommend that the district ensure that all claimed costs are allowable and supported.

District's Response

The district agreed with the finding.

**FINDING 4—  
Understated  
authorized health fee  
revenues claimed**

The district understated authorized health fee revenue by \$159,341 for the audit period.

For the audit period, the district reported the actual health fees collected from the students, instead of the authorized health fee revenues. We recalculated the authorized health fee revenues by multiplying student enrollment by semester, net of allowable health fee exemptions, by the authorized student health fee. We obtained student enrollment information from the chancellor's office and the student fee waiver information from the district's list of Board of Governors Grant (BOGG) students.

The understated authorized health fee revenues are calculated as follows.

	Fall	Winter	Spring	Summer	Total
FY 2002-03:					
Student enrollment	26,109	—	28,975	17,146	
Allowable health fee exceptions	<u>(9,045)</u>	<u>—</u>	<u>(9,101)</u>	<u>(4,387)</u>	
Subtotal	17,064	—	19,874	12,759	
Authorized student health fee	<u>\$ (12)</u>	<u>\$ —</u>	<u>\$ (12)</u>	<u>\$ (9)</u>	
Audited authorized health fee revenues	<u>\$(204,768)</u>	<u>\$ —</u>	<u>\$(238,488)</u>	<u>\$(114,831)</u>	<u>\$(558,087)</u>
Claimed authorized health fee revenues					<u>485,844</u>
Audit adjustment, FY 2002-03					<u>(72,243)</u>
FY 2003-04:					
Student enrollment	29,579	10,958	28,235	12,690	
Allowable health fee exceptions	<u>(10,256)</u>	<u>(5,310)</u>	<u>(10,209)</u>	<u>(3,313)</u>	
Subtotals	19,323	5,648	18,026	9,377	
Authorized student health fee	<u>\$ (12)</u>	<u>\$ (9)</u>	<u>\$ (12)</u>	<u>\$ (9)</u>	
Audited authorized health fee revenues	<u>\$(231,876)</u>	<u>\$(50,832)</u>	<u>\$(216,312)</u>	<u>\$(84,393)</u>	<u>\$(583,413)</u>
Claimed authorized health fee revenues					<u>496,315</u>
Audit adjustment, FY 2002-03					<u>(87,098)</u>
Total audit adjustment					<u>\$(159,341)</u>

*Parameters and Guidelines* states that health fees authorized by *Education Code* must be deducted from costs claimed. *Education Code* Section 76355(c) states that health fees are authorized from all student except those students who: (1) depend exclusively on prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need.

Also, *Government Code* Section 17514 states that costs mandated by the State are any increased costs that a district is required to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, *Government Code* Section 17556 states that the COSM shall not find costs mandated by the State if the district has the authority to levy fees to pay for the mandated program or increased level of services.

Recommendation

We recommend that the district ensure that allowable health services program costs are offset by the amount of health service fee revenue authorized by the *Education Code*.

District's Response

The district agreed with the finding.

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